

Legislative Audit Division

State of Montana



Report to the Legislature

October 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Montana School for the Deaf and the Blind

This report contains an unqualified opinion on the financial schedules and no recommendations to the school.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
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LEGISLATIVE AUDIT DIVISION

October 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and the Blind for the two fiscal years ending June 30, 1996. The school's written response is included in the back of the audit report.

We thank the superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", is written over a horizontal line.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Montana School for the Deaf and the Blind

Members of the audit staff involved in this audit were Brenda Bokovoy, Wayne Guazzo, Cindy S. Jorgenson, and Emlyn Neuman-Javornik.

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Elected, Appointed, and Administrative Officials

Board of Public Education

Mark Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

Dr. Richard Crofts, Commissioner of Higher Education*

		Term Expires
Wilbur Anderson, Chairperson	Big Fork	1999
Storrs Bishop, Vice Chairperson	Ennis	2003
Sarah Listerud	Wolf Point	1998
Kirk Miller	Havre	2002
Ron Fernelius	West Yellowstone	1997
Barbara Keim	Billings	2000
Joyce Silverthorne	Dixon	2001
Erin Pasha, Student Representative	Highwood	1997

*ex officio members

Montana School for the Deaf and the Blind

C. John Kinna, Superintendent

Bill Davis, Principal

Bill Sykes, Business Manager

Montana School for the Deaf and the Blind

This financial-compliance audit report contains the results of our audit of the Montana School for the Deaf and the Blind for the two fiscal years ended June 30, 1996.

There were eight prior audit recommendations directed to the school. Of these, six were implemented and two were partially implemented. Additional information concerning these recommendations is available on page 3 of the report document.

We issued an unqualified opinion on the financial schedules contained in the audit report. This means the reader may rely on the presented financial information.

The audit report contains no recommendations directed to the school.

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and the Blind (school) for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if the school complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement in management and internal controls of the school.
3. Determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1996.
4. Determine the implementation status of prior audit recommendations.

This report contains no recommendations to the school. Concerns deemed not to have a significant effect on the successful operations of the school have been discussed with management.

Background

The Montana School for the Deaf and the Blind was founded in 1893 as part of the Montana State Training School at Boulder. In 1937 the school was transferred to Great Falls and established as a separate and independent institution of the state of Montana. The school is under the general supervision, direction, and control of the Board of Public Education. Board members are appointed by the governor and confirmed by the Senate.

The purpose of the school is to educate children whose hearing or vision is impaired such that they cannot be properly taught in the public schools of the state. This determination is made by the resident school district or the court system. In addition, the school serves deaf and blind children throughout the state through its itinerant/outreach program. In fiscal year 1993-94, the outreach program became a "fee for service" program. This caused a significant drop in usage, and the school could support only one resource consultant. However, during the 1995 Legislative Session, funding for the outreach program was reinstated beginning in fiscal year 1995-96. The school now only charges for the cost of large print/braille books

Introduction

and any other items requested by the school districts. The following schedule shows the number of students served and full-time equivalent employees at the school during the audit period.

Table 1
School Students and Staff

	<u>Fiscal</u> <u>1994-95</u>	<u>Fiscal</u> <u>1995-96</u>
Deaf/Hard of Hearing Children	73	73
Blind/Low Vision Children	14	19
Severely Multi Handicapped Children	9	8
Outreach/Itinerant Program	<u>32</u>	<u>180</u>
Total Students Served	128	280
Full-time Equivalent Staff	82	82

Source: Prepared by the Legislative Audit Division from school records.

The school has three sources of funding: the General Fund, land grant income, and federal subgrants from the Office of Public Instruction.

The school works closely with the Montana School for the Deaf and the Blind Foundation, Inc. The foundation has a contract with the Board of Public Education to hold and manage assets donated for the benefit of the school. For additional information regarding the foundation, refer to note 5 on page A-15.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit of the school contained eight recommendations. The school implemented six and partially implemented two. The recommendations partially implemented relate to establishing a student abandoned property account and inventory management and recording procedures. These issues were discussed with management and are not addressed as recommendations in this audit report because the school made significant progress toward implementing the prior recommendations.

Independent Auditor's Report & Agency Financial Schedules

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey



Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana School for the Deaf and the Blind for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-16. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana School for the Deaf and the Blind for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 14, 1996

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MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>	<u>Agency Funds</u>
FUND BALANCE: July 1, 1994	\$ 0	\$ 40,964	\$ 0	
PROPERTY HELD IN TRUST: July 1, 1994				\$ 9,044
ADDITIONS				
<u>Fiscal Year 1994-95</u>				
Budgeted Revenues & Transfers In	45,602 ¹	322,253 ¹		
Nonbudgeted Revenues			35,743	
Prior Year Expenditure Adjustments	9,772	529		
Additions to Property Held in Trust				35,268
Support from State of Montana	2,582,359			
<u>Fiscal Year 1995-96</u>				
Budgeted Revenues & Transfers In	5,179 ¹	403,513 ¹		
Nonbudgeted Revenues			71,036	
Support from State of Montana	3,203,499			
Additions to Property Held in Trust				43,662
Total Additions	<u>5,846,411</u>	<u>726,295</u>	<u>106,779</u>	<u>78,930</u>
REDUCTIONS				
<u>Fiscal Year 1994-95</u>				
Budgeted Expenditures	2,637,733	321,739		
Nonbudgeted Expenditures			35,743	
Prior Year Revenue Adjustments		38		
Reductions to Property Held in Trust				37,994
<u>Fiscal Year 1995-96</u>				
Budgeted Expenditures	3,193,929	377,503		
Nonbudgeted Expenditures			71,036	
Prior Year Expenditure Adjustments	14,749			
Reductions to Property Held in Trust				42,282
Total Reductions	<u>5,846,411</u>	<u>699,280</u>	<u>106,779</u>	<u>80,276</u>
FUND BALANCE: June 30, 1996	\$ 0	\$ 67,979	\$ 0	
PROPERTY HELD IN TRUST: June 30, 1996				\$ 7,698

¹ See note 7 on page A-16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL REVENUES, TRANSFERS IN & OTHER ADDITIONS BY FUND BY CLASS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>	<u>Total</u>
<u>Fiscal Year 1995-96</u>				
TOTAL REVENUES BY CLASS				
Charges for Services		\$ 91,706 ¹		\$ 91,706
Sale of Documents and Merchandise	\$ 624			624
Rentals, Leases & Royalties		7,316	\$ 14,048	21,364
Miscellaneous	4,555			4,555
Grants, Contracts & Donations			56,988	56,988
Other Financing Sources		212,402		212,402
Federal		92,089		92,089
Total Revenues	<u>5,179</u>	<u>403,513</u>	<u>71,036</u>	<u>479,728</u>
Less: Nonbudgeted Revenues			71,036	71,036
Actual Budgeted Revenues	<u>5,179</u>	<u>403,513</u>	<u>0</u>	<u>408,692</u>
Estimated Revenue	5,500	403,758		409,258
Budgeted Revenues Over (Under) Estimated	<u>\$ (321)</u>	<u>\$ (245)</u>	<u>\$ 0</u>	<u>\$ (566)</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services		\$ 16,004		\$ 16,004
Federal Indirect Cost Recoveries		(6,000)		(6,000)
Sale of Documents and Merchandise	\$ (3,876)			(3,876)
Rentals, Leases & Royalties		7,316		7,316
Miscellaneous	3,555			3,555
Other Financing Sources		12,402		12,402
Federal		(29,967)		(29,967)
Budgeted Revenues Over (Under) Estimated	<u>\$ (321)</u>	<u>\$ (245)</u>		<u>\$ (566)</u>
<u>Fiscal Year 1994-95</u>				
TOTAL REVENUES BY CLASS				
Charges for Services	\$ 40,438 ¹	\$ 30,439		\$ 70,877
Federal Indirect Cost Recoveries		5,083		5,083
Sale of Documents & Merchandise	2,804			2,804
Rentals, Leases & Royalties		8,856	\$ 10,617	19,473
Miscellaneous	2,360			2,360
Grants, Contracts & Donations			25,126	25,126
Other Financing Sources		170,745		170,745
Federal		107,092		107,092
Total Revenues	<u>45,602</u>	<u>322,215</u>	<u>35,743</u>	<u>403,560</u>
Less: Nonbudgeted Revenues			35,743	35,743
Prior-Year Revenue Adjustments		(38)		(38)
Actual Budgeted Revenues	<u>45,602</u>	<u>322,253</u>	<u>0</u>	<u>367,855</u>
Estimated Revenue	34,245	369,190		403,435
Budgeted Revenues Over (Under) Estimated	<u>\$ 11,357</u>	<u>\$ (46,937)</u>	<u>\$ 0</u>	<u>\$ (35,580)</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 11,218	\$ 3,303		\$ 14,521
Federal Indirect Cost Recoveries		(9,950)		(9,950)
Sale of Documents & Merchandise	(1,221)			(1,221)
Rentals, Leases, & Royalties		2,932		2,932
Miscellaneous	1,360			1,360
Other Financing Sources		(39,255)		(39,255)
Federal		(3,967)		(3,967)
Budgeted Revenues Over (Under) Estimated	<u>\$ 11,357</u>	<u>\$ (46,937)</u>		<u>\$ (35,580)</u>

¹ See note 7 on page A-16.

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL PROGRAM EXPENDITURES & TRANSFERS OUT BY OBJECT & FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Administration Program	General Services Program	Student Services	Education	Donated Funds	Total
PROGRAM EXPENDITURES BY OBJECT						
Personal Services						
Salaries	\$ 90,932	\$ 585	\$ 193,863	\$ 1,150,343 ¹		\$ 1,435,723
Hourly Wages	60,550	60,942	346,228	292,057		759,777
Employee Benefits	38,417	29,073	180,097	383,173 ¹		630,760
Total	<u>189,899</u>	<u>90,600</u>	<u>720,188</u>	<u>1,825,573</u>		<u>2,826,260</u>
Operating Expenses						
Services	21,653	33,765	6,926	292,727 ¹		355,071
Supplies & Materials	2,452	18,171	51,613	57,260		129,496
Communications	11,142	532	693	7,813		20,180
Travel	1,676	4	44,193	12,533		58,406
Rent	249		700	1,528		2,477
Utilities		83,866				83,866
Repair & Maintenance	837	22,236	1,344	10,594		35,011
Other Expenses	1,350	3,256	5	7,181	\$ 71,036	82,828
Total	<u>39,359</u>	<u>161,830</u>	<u>105,474</u>	<u>389,636</u>	<u>71,036</u>	<u>767,335</u>
Equipment and Intangible Assets						
Equipment	4,572	7,729	24,769	17,094		54,164
Total	<u>4,572</u>	<u>7,729</u>	<u>24,769</u>	<u>17,094</u>		<u>54,164</u>
Capital Outlay						
Buildings		7,685	1,773			9,458
Total		<u>7,685</u>	<u>1,773</u>			<u>9,458</u>
Total Program Expenditures	<u>\$ 233,830</u>	<u>\$ 267,844</u>	<u>\$ 852,204</u>	<u>\$ 2,232,303</u>	<u>\$ 71,036</u>	<u>\$ 3,657,217</u>
PROGRAM EXPENDITURES BY FUND						
General Fund	\$ 233,830	\$ 267,844	\$ 821,522	\$ 1,885,482		\$ 3,208,678
Special Revenue Fund			30,682	346,821		377,503
Expendable Trust Fund					\$ 71,036	71,036
Total Program Expenditures	<u>233,830</u>	<u>267,844</u>	<u>852,204</u>	<u>2,232,303</u>	<u>71,036</u>	<u>3,657,217</u>
Less: Nonbudgeted Expenditures					71,036	71,036
Prior-Year Expenditure Adjustments	1,597	1,037	2,031	10,084		14,749
Actual Budgeted Expenditures	<u>232,233</u>	<u>266,807</u>	<u>850,173</u>	<u>2,222,219</u>	<u>0</u>	<u>3,571,432</u>
Total Budget Authority	<u>248,213</u>	<u>266,946</u>	<u>850,861</u>	<u>2,283,448</u>		<u>3,649,468</u>
Unspent Budget Authority	<u>\$ 15,980</u>	<u>\$ 139</u>	<u>\$ 688</u>	<u>\$ 61,229</u>	<u>\$ 0</u>	<u>\$ 78,036</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 15,980	\$ 139	\$ 219	\$ 1,243		\$ 17,581
Special Revenue Fund			469	59,986		60,455
Unspent Budget Authority	<u>\$ 15,980</u>	<u>\$ 139</u>	<u>\$ 688</u>	<u>\$ 61,229</u>		<u>\$ 78,036</u>

¹ See note 6 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL PROGRAM EXPENDITURES & TRANSFERS OUT BY OBJECT & FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>Administration Program</u>	<u>General Services Program</u>	<u>Student Services</u>	<u>Education</u>	<u>Donated Funds</u>	<u>Total</u>
PROGRAM EXPENDITURES BY OBJECT						
Personal Services						
Salaries	\$ 86,411	\$ 406	\$ 203,511	\$ 885,672		\$ 1,176,000
Hourly Wages	59,825	58,194	329,718	297,311		745,048
Employee Benefits	36,938	24,294	179,904	335,806		576,942
Total	<u>183,174</u>	<u>82,894</u>	<u>713,133</u>	<u>1,518,789</u>		<u>2,497,990</u>
Operating Expenses						
Services	36,073	27,402	3,314	5,225		72,014
Supplies & Materials	1,765	19,038	63,060	47,280		131,143
Communications	9,311	409	446	5,076		15,242
Travel	2,657	35	8,839	12,332		23,863
Rent	237	120	100	1,200		1,657
Utilities		92,147				92,147
Repair & Maintenance	924	28,546	7,347	7,796		44,613
Other Expenses	833	2,932	36	10,995	\$ 35,743	50,539
Total	<u>51,800</u>	<u>170,629</u>	<u>83,142</u>	<u>89,904</u>	<u>35,743</u>	<u>431,218</u>
Equipment and Intangible Assets						
Equipment	989	6,845	5,731	25,726		39,291
Total	<u>989</u>	<u>6,845</u>	<u>5,731</u>	<u>25,726</u>		<u>39,291</u>
Capital Outlay						
Buildings		11,515				11,515
Total		<u>11,515</u>				<u>11,515</u>
Transfers						
Nonmandatory Transfers		4,900				4,900
Total		<u>4,900</u>				<u>4,900</u>
Total Program Expenditures	\$ <u>235,963</u>	\$ <u>276,783</u>	\$ <u>802,006</u>	\$ <u>1,634,419</u>	\$ <u>35,743</u>	\$ <u>2,984,914</u>
PROGRAM EXPENDITURES BY FUND						
General Fund	\$ 235,963	\$ 276,783	\$ 769,738	\$ 1,345,477		\$ 2,627,961
Special Revenue Fund			32,268	288,942		321,210
Expendable Trust Fund					\$ 35,743	35,743
Total Program Expenditures	<u>235,963</u>	<u>276,783</u>	<u>802,006</u>	<u>1,634,419</u>	<u>35,743</u>	<u>2,984,914</u>
Less: Nonbudgeted Expenditures					35,743	35,743
Prior-Year Expenditure Adjustments	(22)	(1,266)	(1,044)	(7,969)		(10,301)
Actual Budgeted Expenditures	<u>235,985</u>	<u>278,049</u>	<u>803,050</u>	<u>1,642,388</u>	<u>0</u>	<u>2,959,472</u>
Budget Authority	238,778	279,086	806,812	1,991,909		3,316,585
Unspent Budget Authority	<u>\$ 2,793</u>	<u>\$ 1,037</u>	<u>\$ 3,762</u>	<u>\$ 349,521</u>	<u>\$ 0</u>	<u>\$ 357,113</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 2,793	\$ 1,037	\$ 2,031	\$ 46,546		\$ 52,407
Special Revenue Fund			1,731	302,975		304,706
Total Unspent Budget Authority	<u>\$ 2,793</u>	<u>\$ 1,037</u>	<u>\$ 3,762</u>	<u>\$ 349,521</u>		<u>\$ 357,113</u>

This schedule is prepared from the Statewide Budgeting Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for the Deaf and the Blind uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust and Agency Funds. In applying the modified accrual basis, the school records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the school incurs the related liability and it is measurable.

State accounting policy also requires the school to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996 the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency funds, if any, is included in the Schedule of Changes in Fund Balance and Property Held in Trust.

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment except for agency funds which are adjusted to reflect the additions and reductions to property held in trust. Accounts are organized in funds according to state law. The school uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. School Special Revenue Funds include School Trust Interest/Income, U.S. Department of Education programs, and U.S. Department of Agriculture programs.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The school has an Agency Fund to account for student moneys and an Expendable Trust Fund to account for donations.

- 2. **Annual and Sick Leave**

Noncontract employees at the school accumulate both annual and sick leave. The school pays these employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. The school absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995 and June 30, 1996, the school had a liability of \$201,869 and \$199,984, respectively.
- 3. **Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The school's contribution to the retirement systems was \$130,922 in fiscal year 1994-95 and \$155,309 in fiscal year 1995-96.
- 4. **General Fund Balance**

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

Notes to the Financial Schedules

Foundation

The Montana School for the Deaf and the Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation performs duties for the school under a contract with the Board of Public Education. It files reports with the Board of Public Education demonstrating contract fulfillment. The Board of Public Education appoints the directors of the foundation. At least one member of the foundation board of directors is a member of the Board of Public Education. The superintendent of the school is the executive director of the foundation.

The foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school or the Board of Public Education on behalf of the school, by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the Montana School for the Deaf and the Blind. It is the intent of the foundation that its gifts to the school be used to supplement taxpayer funds. The foundation activity is not reflected on the accompanying financial schedules. The foundation reported it expended \$122,864 in support of the school during fiscal year 1994-95 and \$235,804 in fiscal year 1995-96.

Litigation

A lawsuit filed in 1990 by 13 employees against the school was settled in 1996. In the litigation, the employees requested back pay under an Attorney General's Opinion which states that teachers at the school are entitled to leave benefits available to other employees of the state. The court ruled against the state and determined the plaintiffs were entitled to back pay for leave benefits. The state appealed the district court's decision on September 30, 1994. The Montana Supreme Court upheld the lower court's decision. The school recorded a settlement liability of \$495,474 at the end of fiscal year 1995-96. Of this, the school recorded \$178,831 as personal services, \$28,272 as benefits, and \$288,487 as services expenditures. The actual payment to the plaintiffs occurred in August 1996.

Notes to the Financial Schedules

7. Out-of-state Tuition

The school enrolls out-of-state students if their state of residence does not offer an equivalent education. The school collects out-of-state tuition for these students. Fiscal year 1994-95 out-of-state tuition revenue of \$36,084 was recorded as charges for services revenue in the General Fund. In fiscal year 1995-96 out-of-state tuition revenue of \$74,774 was recorded as charges for services revenue in the Special Revenue Fund.

8. Proposed Land Sale

On August 15, 1996 the school advertised to sell in aggregate 17 lots and 3 single family residences. The foundation owns 52 percent of these properties and the school owns 48 percent. The minimum bid for the properties is \$284,000. Sealed bids will be opened November 8, 1996, and school officials anticipate the sale will be finalized by December 1, 1996.

Agency Response

SCHOOL FOR THE DEAF AND THE BLIND



STATE OF MONTANA

3911 CENTRAL AVENUE
GREAT FALLS, MT 59405-1697

Administration: (406) 771-6000
Education: (406) 771-6030
FAX: (406) 771-6164
TDD: (406) 771-6063

September 30, 1996

Mr. Scott A. Seacat, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

OCT 2 1996

Dear Mr. Seacat:

We are in receipt of the draft audit report for the two fiscal years ended June 30, 1996 and are very pleased to see that there are not issues requiring corrective action. In view of the fact that there is no corrective action to be taken, we do not feel an exit meeting or audit discussion is necessary, and therefore, do not request one.

I genuinely do want to compliment your auditors on the very professional manner in which they conducted the audit. They are just very nice folks with whom to work. At no time, were they rude, discourteous, demanding, but just very pleasant to work with.

If this letter is not sufficient to allow you to finalize your audit report, please call, and we will respond in whatever manner necessary.

I will ask Mr. Sykes to call you and inform you that we feel a meeting is unnecessary.

Thank you!

Sincerely,


JOHN KINNA
SUPERINTENDENT

JK/bl

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